

Powerchip Semiconductor Corporation

Financial Statements for the Six Months Ended June 30, 2002 and 2001

Together with Independent Auditors' Report

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

July 23, 2002

The Board of Directors and Shareholders
Powerchip Semiconductor Corporation

We have audited the accompanying balance sheets of Powerchip Semiconductor Corporation as of June 30, 2002 and 2001, and the related statements of income, changes in shareholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with Regulations for Auditing and Certification of Financial Statements by Certified Public Accountants, and auditing standards generally accepted in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As mentioned in Note 6 to the financial statements, the carrying values of the entire investments accounted for using the equity method of \$1,763,326 and \$719,216 and the related investment loss of \$71,552 and \$35,621 for the six months ended June 30, 2002 and 2001, respectively, are based on unaudited financial statements of investee companies in the same period.

In our opinion, except for the effect on the June 30, 2002 and 2001 financial statements of such adjustments, if any, as might have been disclosed had we audited the financial statements of investee companies as explained in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Powerchip Semiconductor Corporation as of June 30, 2002 and 2001, and the results of its operations and its cash flows for the six months then ended in conformity with the regulations governing the preparation of financial statements of public companies and accounting principles generally accepted in the Republic of China.

Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese

POWERCHIP SEMICONDUCTOR CORPORATION

BALANCE SHEETS

June 30, 2002 and 2001

(In Thousand New Taiwan Dollars Except Par Value)

ASSETS	2002		2001		LIABILITIES AND SHAREHOLDERS' EQUITY	2002		2001	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 3)	\$ 12,874,641	21	\$ 13,057,490	27	Short-term bank borrowings (Note 9)	\$ 500,000	1	\$ -	-
Short-term investments - net (Notes 2 and 4)	470,980	1	479,395	1	Commercial papers issued (Note 10)	598,805	1	-	-
Notes and accounts receivable (Notes 2 and 18)					Accounts payable (Note 18)				
Related parties - net of allowance for doubtful accounts of \$272 in 2002 and \$990 in 2001	220,532	-	585,021	1	Related parties	405,688	1	444,011	1
Third parties - net of allowance for doubtful accounts of \$81,019 in 2002 and \$107,534 in 2001	1,144,197	2	755,198	2	Third parties	850,762	1	810,910	2
Other receivables (Note 18)	547,703	1	1,001,805	2	Accrued expenses (Note 18)	683,514	1	627,266	1
Inventories (Notes 2 and 5)	1,548,228	3	1,645,954	3	Payable on equipment (Notes 7 and 18)				
Prepaid expenses	105,010	-	180,504	-	Related parties	5,796	-	6,838	-
Deferred income tax assets (Notes 2 and 16)	82,494	-	205,544	1	Third parties	9,361,426	16	1,174,910	2
Pledged time deposits (Note 19)	930,823	2	4,000	-	Convertible bonds payable (Notes 2 and 11)	6,264,608	11	6,887,000	14
Other current assets (Notes 2)	41,179	-	64,796	-	Current portion of long-term bank loans (Notes 12 and 19)	1,958,701	3	1,746,954	4
Total Current Assets	<u>17,965,787</u>	<u>30</u>	<u>17,979,707</u>	<u>37</u>	Other current liabilities (Notes 2 and 21)	<u>122,765</u>	<u>-</u>	<u>129,637</u>	<u>-</u>
					Total Current Liabilities	20,752,065	35	11,827,526	24
LONG-TERM INVESTMENTS (Notes 2, 6 and 18)	<u>3,603,604</u>	<u>6</u>	<u>2,215,718</u>	<u>5</u>	LONG-TERM BANK LOANS (Notes 12 and 19)	6,885,779	11	5,611,655	12
					PAYABLE ON EQUIPMENT - NONCURRENT (Note 7)	1,918,040	3	-	-
PROPERTIES (Notes 2, 7, 18 and 19)					OTHER LIABILITIES (Notes 2 and 13)	<u>22,200</u>	<u>-</u>	<u>21,253</u>	<u>-</u>
Cost					Total Liabilities	<u>29,578,084</u>	<u>49</u>	<u>17,460,434</u>	<u>36</u>
Buildings	6,094,537	10	2,877,523	6	SHAREHOLDERS' EQUITY (Note 14)				
Machinery and equipment	28,351,404	48	27,393,326	57	Capital stock - \$10 par value				
Research and development equipment	73,132	-	54,248	-	Authorized - 3,600,000 thousand shares in 2002 and 2,943,200 thousand shares in 2001				
Facility equipment	5,738,638	10	5,594,094	12	Issued - 2,679,358 thousand shares in 2002 and 2,311,811 thousand shares in 2001	26,793,577	45	23,118,112	48
Transportation equipment	15,100	-	15,099	-	Entitlement certificates	2,133	-	-	-
Office equipment	179,868	-	84,290	-	Capital surplus (Note 2)				
Miscellaneous equipment	<u>116,509</u>	<u>-</u>	<u>97,848</u>	<u>-</u>	Paid-in capital in excess of par value	4,405,161	7	8,545,503	18
	40,569,188	68	36,116,428	75	Gain on disposal of properties	-	-	99,280	-
Accumulated depreciation	(21,604,494)	(36)	(16,569,276)	(35)	Arising from conversion of bonds	279,068	1	-	-
	18,964,694	32	19,547,152	40	Retained earnings (deficit)				
Construction in progress	218,445	-	896,605	2	Appropriated for legal reserve	-	-	475,932	1
Advance payments	<u>14,149,911</u>	<u>24</u>	<u>1,353,004</u>	<u>3</u>	Unappropriated earnings (deficit)	138,437	-	(736,175)	(2)
Net Properties	<u>33,333,050</u>	<u>56</u>	<u>21,796,761</u>	<u>45</u>	Treasury stock (Notes 2 and 15)	(1,362,082)	(2)	(639,186)	(1)
					Total Shareholders' Equity	<u>30,256,294</u>	<u>51</u>	<u>30,863,466</u>	<u>64</u>
OTHER ASSETS					TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 59,834,378</u>	<u>100</u>	<u>\$ 48,323,900</u>	<u>100</u>
Refundable deposits	21,622	-	15,334	-					
Organization costs - net (Note 2)	-	-	5,455	-					
Deferred charges - net (Notes 2, 8 and 18)	2,026,994	3	2,791,562	6					
Installment equipment receivable (Note 18)	-	-	353,295	1					
Deferred income tax assets (Notes 2 and 16)	2,359,600	4	2,614,418	5					
Land (Notes 19 and 20)	311,510	1	311,510	1					
Spare parts - net	<u>212,211</u>	<u>-</u>	<u>240,140</u>	<u>-</u>					
Total Other Assets	<u>4,931,937</u>	<u>8</u>	<u>6,331,714</u>	<u>13</u>					
TOTAL ASSETS	<u>\$ 59,834,378</u>	<u>100</u>	<u>\$ 48,323,900</u>	<u>100</u>					

The accompanying notes are an integral part of the financial statements.

(With T N Soong & Co report dated July 23, 2002)

English Translation of Financial Statements Originally Issued in Chinese

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF INCOME

For the Six Months Ended June 30, 2002 and 2001

(In Thousand New Taiwan Dollars Except Earnings (Loss) Per Share)

	2002		2001	
	Amount	%	Amount	%
GROSS SALES	\$7,068,275		\$7,752,590	
SALES RETURNS AND ALLOWANCES	16,241		28,122	
NET SALES (Notes 2 and 18)	7,052,034	100	7,724,468	100
COST OF SALES (Note 18)	6,287,151	89	7,554,939	98
GROSS PROFIT	764,883	11	169,529	2
OPERATING EXPENSES				
Selling	36,269	1	95,713	1
General and administrative (Note 18)	759,962	11	343,614	5
Research and development	523,952	7	794,106	10
Total Operating Expenses	1,320,183	19	1,233,433	16
LOSS FROM OPERATIONS	(555,300)	(8)	(1,063,904)	(14)
NON-OPERATING INCOME				
Reversal of allowances for loss on inventories and spare parts	506,766	7	-	-
Interest (Notes 2, 18 and 21)	111,794	2	227,472	3
Foreign exchange gain - net (Notes 2 and 21)	87,323	1	10,127	-
Gain on sales of investments - net	62,340	1	-	-
Indemnity income	6,925	-	114,261	1
Reversal of provision for decline in value of short-term investments (Note 2)	6,203	-	213,241	3
Other	8,962	-	57,503	1
Total Non-Operating Income	790,313	11	622,604	8
NON-OPERATING EXPENSES				
Interest (Notes 2, 7 and 21)	127,430	2	220,851	3
Loss from earthquake	97,511	1	-	-
Investment loss recognized by equity method (Notes 2 and 6)	71,552	1	35,621	1

(Forward)

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	<u>2002</u>		<u>2001</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Impairment loss on long-term investments (Note 2)	\$ 21,855	-	\$ 15,805	-
Loss on disposal of properties (Note 2)	1,575	-	2,250	-
Provision for loss on inventories and spare parts	-	-	721,192	9
Loss on sales of investment - net (Note 2)	-	-	179,121	2
Other	<u>36,462</u>	<u>1</u>	<u>7,310</u>	<u>-</u>
Total Non-Operating Expenses	<u>356,385</u>	<u>5</u>	<u>1,182,150</u>	<u>15</u>
LOSS BEFORE INCOME TAX	(121,372)	(2)	(1,623,450)	(21)
INCOME TAX BENEFIT (Notes 2 and 16)	<u>361,671</u>	<u>5</u>	<u>743,925</u>	<u>10</u>
NET INCOME (LOSS)	<u>\$ 240,299</u>	<u>3</u>	<u>(\$ 879,525)</u>	<u>(11)</u>

	<u>2002</u>		<u>2001</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>	<u>Before Income Tax</u>	<u>After Income Tax</u>
EARNINGS (LOSS) PER SHARE (Note 17)				
Basic earnings (loss) per share	<u>(\$ 0.05)</u>	<u>\$ 0.10</u>	<u>(\$ 0.71)</u>	<u>(\$ 0.39)</u>
Diluted earnings (loss) per share	<u>(\$ 0.05)</u>	<u>\$ 0.09</u>	<u>(\$ 0.71)</u>	<u>(\$ 0.39)</u>

The pro forma net income and earnings (loss) per share on the assumption that the stock of the parent company held by its subsidiaries, as an investment is not treated as a treasury stock are shown as follows:

NET INCOME	<u>\$ 250,613</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>
EARNINGS (LOSS) PER SHARE		
Basic earnings (loss) per share	<u>(\$ 0.05)</u>	<u>\$ 0.11</u>
Diluted earnings (loss) per share	<u>(\$ 0.05)</u>	<u>\$ 0.09</u>

The accompanying notes are an integral part of the financial statements.

(With T N Soong & Co report dated July 23, 2002)

English Translation of Financial Statements Originally Issued in Chinese

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Six Months Ended June 30, 2002 and 2001

(In Thousand New Taiwan Dollars Except Per Share Data)

	CAPITAL STOCK ISSUED		Entitlement Certificates	Total	CAPITAL SURPLUS (Notes 2 and 14)			RETAINED EARNINGS (DEFICIT)			TREASURY STOCK (Notes 2 and 15)	TOTAL SHAREHOLDERS' EQUITY (Note 14)	
	Shares (Thousand)	Amount			Paid-in Capital in Excess of Par Value	Gain on Disposal of Properties	Arising From Conversion of Bonds	Total	Legal Reserve	Unappropriated Earnings (Deficit)			Total
BALANCE, JANUARY 1, 2002	2,311,811	\$ 23,118,112	\$ -	\$ 23,118,112	\$ 8,545,503	\$ 99,280	\$ -	\$ 8,644,783	\$ 475,932	(\$ 6,293,442)	(\$ 5,817,510)	(\$ 772,774)	\$ 25,172,611
Transfer of paid-in capital in excess of par value and legal reserve to offset deficit	-	-	-	-	(5,718,230)	(99,280)	-	(5,817,510)	(475,932)	6,293,442	5,817,510	-	-
Issuance of capital stock, May 15, 2002 - \$15 per share (certain portion for GDS offering)	350,000	3,500,000	-	3,500,000	1,577,888	-	-	1,577,888	-	-	-	-	5,077,888
Conversion of bonds into capital stock	17,547	175,465	2,133	177,598	-	-	279,068	279,068	-	-	-	-	456,666
Adjustment for changes in investee companies' shareholders' equities under equity method	-	-	-	-	-	-	-	-	-	(2,355)	(2,355)	-	(2,355)
Net income for the six months in 2002	-	-	-	-	-	-	-	-	-	240,299	240,299	-	240,299
Acquisition of treasury stock-45,377 thousand shares at average of \$22.04 per share	-	-	-	-	-	-	-	-	-	-	-	(1,000,195)	(1,000,195)
Sales of treasury stock-26,391 thousand shares at average of \$13.94 per share	-	-	-	-	-	-	-	-	-	(99,507)	(99,507)	467,371	367,864
Treasury stock - the parent's share of capital stocks held by its subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(56,484)	(56,484)
BALANCE, JUNE 30, 2002	<u>2,679,358</u>	<u>\$ 26,793,577</u>	<u>\$ 2,133</u>	<u>\$ 26,795,710</u>	<u>\$ 4,405,161</u>	<u>\$ -</u>	<u>\$ 279,068</u>	<u>\$ 4,684,229</u>	<u>\$ -</u>	<u>\$ 138,437</u>	<u>\$ 138,437</u>	<u>(\$ 1,362,082)</u>	<u>\$ 30,256,294</u>
BALANCE, JANUARY 1, 2001	1,900,321	\$ 19,003,210	\$ -	\$ 19,003,210	\$ 10,041,760	\$ 99,280	\$ -	\$ 10,141,040	\$ 60,081	\$ 4,225,803	\$ 4,285,884	(\$ 646,948)	\$ 32,783,186
Appropriations of 2000 earnings													
Legal reserve	-	-	-	-	-	-	-	-	415,851	(415,851)	-	-	-
Stock dividend - \$1.2 per share	224,438	2,244,385	-	2,244,385	-	-	-	-	-	(2,244,385)	(2,244,385)	-	-
Cash dividend - \$0.5 per share	-	-	-	-	-	-	-	-	-	(935,161)	(935,161)	-	(935,161)
Bonus to employees	37,426	374,260	-	374,260	-	-	-	-	-	(374,265)	(374,265)	-	(5)
Bonus to directors and supervisors	-	-	-	-	-	-	-	-	-	(112,280)	(112,280)	-	(112,280)
Balance after appropriations	<u>2,162,185</u>	<u>21,621,855</u>	<u>-</u>	<u>21,621,855</u>	<u>10,041,760</u>	<u>99,280</u>	<u>-</u>	<u>10,141,040</u>	<u>475,932</u>	<u>143,861</u>	<u>619,793</u>	<u>(646,948)</u>	<u>31,735,740</u>
Transfer of paid-in capital in excess of par value to capital stock	149,626	1,496,257	-	1,496,257	(1,496,257)	-	-	(1,496,257)	-	-	-	-	-
Net loss for the six months in 2001	-	-	-	-	-	-	-	-	-	(879,525)	(879,525)	-	(879,525)
Sales of treasury stock-360 thousand shares at average of \$20.2 per share	-	-	-	-	-	-	-	-	-	(511)	(511)	7,762	7,251
BALANCE, JUNE 30, 2001	<u>2,311,811</u>	<u>\$ 23,118,112</u>	<u>\$ -</u>	<u>\$ 23,118,112</u>	<u>\$ 8,545,503</u>	<u>\$ 99,280</u>	<u>\$ -</u>	<u>\$ 8,644,783</u>	<u>\$ 475,932</u>	<u>(\$ 736,175)</u>	<u>(\$ 260,243)</u>	<u>(\$ 639,186)</u>	<u>\$ 30,863,466</u>

The accompanying notes are an integral part of the financial statements.

(With T N Soong & Co report dated July 23, 2002)

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2002 and 2001
(In Thousand New Taiwan Dollars)

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 240,299	(\$ 879,525)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	2,389,499	2,855,085
Amortization	547,838	885,347
Reversal of provision for decline in value of short-term investments	(6,203)	(213,241)
Provision for doubtful accounts	5,803	61,618
Provision (reversal of allowance) for loss on inventories and spare parts	(506,766)	721,192
Investment loss recognized by equity method	71,552	35,621
Impairment loss on long-term investments	21,855	15,805
Cash dividends from long-term investments under equity method	12,249	-
Amortization of discount on long-term investments of bonds	(50)	-
Gain on sales of long-term investments-net	(35,803)	-
Loss on disposal of properties - net	1,576	2,250
Deferred income tax assets	(361,716)	(744,254)
Amortization of discount on commercial papers issued	14,389	6,381
Foreign exchange (gain) loss on convertible bonds payable	(268,427)	180,000
Foreign exchange (gain) loss on long-term bank loans	(187,378)	99,339
Changes in operating assets and liabilities:		
Notes and accounts receivable	(580,329)	810,978
Other receivables	52,635	(73,075)
Inventories	284,509	81,900
Prepaid expenses	103,514	10,336
Other current assets	23,383	(57,458)
Accounts payable	(12,894)	(369,926)
Accrued expenses	191,584	(175,559)
Forward contract payable	144,005	62,241
Other current liabilities	4,544	29,257
Accrued pension costs	698	430
Net Cash Provided by Operating Activities	<u>2,150,366</u>	<u>3,344,742</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in short-term investments	(169,853)	51,231
Collections on installment equipment receivable	410,613	382,931
Acquisition of:		
Properties	(4,021,595)	(2,909,238)
Long-term investments	(345,843)	(389,019)
Deferred charges	(550,374)	(223,656)
Decrease (increase) in pledged time deposits	(896,823)	8,382

(Forward)

English Translation of Financial Statements Originally Issued in Chinese

	<u>2002</u>	<u>2001</u>
Decrease (increase) in spare parts	\$ 13,532	(\$ 58,162)
Decrease in refundable deposits	4,599	8,503
Proceeds from disposal of		
Long-term investments	96,541	-
Properties	<u>-</u>	<u>793</u>
Net Cash Used in Investing Activities	(<u>5,459,203</u>)	(<u>3,128,235</u>)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term bank borrowings	(420,000)	(80,000)
Increase (decrease) in commercial papers issued	293,880	(89)
Proceeds from:		
Issuance of capital stock	5,077,888	-
Long-term bank loans	1,000,000	3,277,540
Issuance of convertible bonds	-	6,707,000
Sales of treasury stock	367,864	7,251
Repayments of long-term bank loans	(1,355,844)	(1,936,960)
Cash dividend paid	-	(935,161)
Bonus paid to employees	-	(5)
Bonus paid to directors and supervisors	-	(112,280)
Increase (decrease) in guarantee deposits	278	(90)
Reacquisition of capital stock (treasury stock)	(<u>1,000,195</u>)	<u>-</u>
Net Cash Provided by Financing Activities	<u>3,963,871</u>	<u>6,927,206</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	655,034	7,143,713
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>12,219,607</u>	<u>5,913,777</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$12,874,641</u>	<u>\$13,057,490</u>
SUPPLEMENTAL INFORMATION		
Interest paid (excluding amounts capitalized of \$112,784 in 2002 and \$47,394 in 2001)	<u>\$ 71,487</u>	<u>\$ 260,122</u>
Income tax paid	<u>\$ 9,606</u>	<u>\$ 12,001</u>
Noncash financing activities		
Current portion of long-term bank loans	<u>\$ 1,958,701</u>	<u>\$ 1,746,954</u>
Transfer of long-term investments to short-term Investments	<u>\$ 90,370</u>	<u>\$ -</u>
Conversion of bonds	<u>\$ 456,666</u>	<u>\$ -</u>
Treasury stock - the parent's share of capital stocks held by its subsidiaries	<u>\$ 56,484</u>	<u>\$ -</u>
Cash paid for acquisition of properties		
Total acquisition	\$12,723,452	\$ 2,327,472
Payable, beginning of period	2,583,405	1,763,514
Payable, end of period	(<u>11,285,262</u>)	(<u>1,181,748</u>)
	<u>\$ 4,021,595</u>	<u>\$ 2,909,238</u>

The accompanying notes are an integral part of the financial statements.

(With T N Soong & Co report dated July 23, 2002)

POWERCHIP SEMICONDUCTOR CORPORATION

NOTES TO FINANCIAL STATEMENTS

(In Thousand New Taiwan Dollars, Except Per Share Data and Specified Otherwise)

1. GENERAL

The Corporation was incorporated on December 20, 1994 and the Corporation's common shares have been traded on the Taiwan Over-The-Counter Securities Exchange since March 23, 1998. The Corporation also issued Global Depositary Shares (GDS) which have been listed on Luxembourg Stock Exchange and accepted for quotation on the SEAQ International of the London Stock Exchange and eligible for trading in the Private Offerings, Resales and Trading through Automated Linkages Market of the Nasdaq Stock Market, Inc. since November 1999.

The business activities of the Corporation mainly include research and development, manufacturing, testing, assembling, sub-contract and sales of various integrated circuit products.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Corporation, which conform to the regulations governing the preparation of financial statements of public companies and accounting principles generally accepted in the Republic of China, are summarized follows:

Cash equivalents

Commercial paper purchased with maturities of less than three months from the date of purchase are classified as cash equivalents.

Short-term investments

Investments in listed stocks and mutual funds are stated at the lower of aggregate costs or market value. An allowance for decline in value is provided when the aggregate carrying value of the investments exceeds the total market value. Any recovery of the aggregate market value to the extent of the original carrying value is recognized as income. Costs of such investments sold are determined by the moving average method.

Bonds purchased under resale agreements are stated at cost. Costs of bonds sold are determined by the specific identification method.

Allowance for doubtful receivables

Allowance for doubtful receivables is provided based on a review of the estimated collectibility of individual receivables.

Inventories

Inventories are stated at the lower of weighted average cost or market value. Market value represents net realizable value or replacement cost.

Long-term investments

Investments in shares of stock of companies wherein the Corporation exercises significant influence on their operating and financial decisions are accounted for by equity method. The difference between the investment cost and the Corporation's proportionate share in the net assets of the investee on the date of acquisition is amortized on a straight-line method over five years. Such amortization and the Corporation's proportionate share in the net income or net losses of the investee companies are recognized as investment income or loss. When the Corporation subscribes to additional investee shares at a percentage different from its existing equity interest, the resulting carrying amount of the investment differs from the amount of Corporation's proportionate share in the investee's net equity. The Corporation records such difference as an adjustment to capital surplus as well as the long-term investments accounts. If the balance in paid-in capital from long-term investments is insufficient to absorb the adjustment, the remainder is recorded as reduction of retained earnings.

Other stock investments are accounted for by cost method. Cash dividends are recognized as income in the year received but are accounted for as reduction in the carrying value of the long-term investment if the dividends are received in the same year that the related investments are acquired. Stock dividends received are recognized only as increase in the number of stocks held on the ex-dividend date.

These investments are stated at cost less decline in market value of listed stocks or decline in value of unlisted stocks which is considered irrecoverable; such reductions are charged to shareholders' equity or current income, respectively.

The costs of investments sold are determined by the moving average method.

Beginning January 2002, the Corporation adopted Statements of Financial Accounting Standards No. 30, "Accounting for Treasury Stock" ("SFAS 30") which requires that the Corporation accounted for its stocks held by its subsidiaries as treasury stocks. The recorded costs of such treasury stocks are based upon the carrying values of the investments of subsidiaries as of January 1, 2002 or the date on which the Corporation hold the controlling interest over the subsidiaries. The adoption of said standard has no material impact to the accompanying financial statements.

Investments in bonds are carried at amortized costs. Discounts are amortized over the remaining life of the bonds. Any amortization is then charged to interest income.

Properties

Properties are stated at cost less accumulated depreciation. Major additions, renewals, betterments and interest expense incurred during the construction period are capitalized, while maintenance and repairs are expensed currently.

Depreciation is provided on the straight-line method over estimated service lives which range as follows: Buildings, 3 to 20 years; machinery and equipment, 2 to 5 years; research and development equipment, 2 to 5 years; facility equipment, 3 to 15 years; transportation equipment, 5 years; office equipment, 3 to 5 years; miscellaneous equipment, 2 to 5 years. The carrying values of properties which have reached their original estimated service lives but are still in use are continuously depreciated over their re-estimated remaining service lives.

Upon sale or disposal of properties, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is credited or charged to current income.

Organization costs

These are amortized over five years from the start of operation.

Deferred charges

Deferred charges are amortized on the straight-line method over the following periods: technical know-how, remaining contract period; computer software system, 2 to 5 years; issuance costs of the convertible bonds, the period from the date of issuance to the expiration date of redemption; test-run costs and technical service charge, 5 years; others, 2 to 7 years.

Convertible bonds

Capital stock account is credited for the par value of the Corporation's common shares which the bond is converted into and the excess of the carrying value of the bond and other assets and liabilities related to such convertible bond as of the date of its conversion over the amounts credited into capital stock account above is then credited to capital surplus account.

Treasury stock

The acquisition of treasury stock is accounted for under cost method. The cost method results in, debiting the treasury stock account for the reacquisition cost (or debiting the treasury stock account at the fair value when the shares are donated) and in reporting this account as a deduction from shareholders' equity account. If the treasury shares are reissued at a price in excess of the acquisition cost, the excess is credited to paid-in capital from treasury stock. If the treasury shares are reissued at less than acquisition cost, the deficiency is treated first as a reduction of any paid-in capital related to previous reissuances. If the balance in paid-in capital from treasury stock is insufficient to absorb the deficiency, the remainder is recorded as a reduction of retained earnings.

Revenue recognition

Revenue is mainly from product sales to customers and is recognized at the time of shipment, indicating that revenue has been realized and earned. The four criteria for revenue being realized and earned are the existence of evidence of sale, actual shipment, fixed or determinable selling price, and reasonable assurance of collectibility.

Pension costs

Net periodic pension costs are recorded on the basis of actuarial calculations. Unrecognized net transition obligation is amortized over 25 years.

Income tax

The Corporation adopts interperiod income tax allocation method. The tax effects of deductible temporary differences, unused tax credits and operating loss carryforwards are recognized as deferred income tax assets, and those of taxable temporary differences are recognized as deferred income tax liabilities. Valuation allowance is provided for deferred income tax assets that are not certain to be realized. A deferred tax asset or liability is, according to the classification of its related asset or liability, classified as current or non-current. However, if a deferred asset or liability cannot be related to an asset or liability in the financial statements, then it is classified as current or non-current based on the expected reversal date.

Any tax credit arising from the purchase of machinery, equipment and technology, research and development expenditures, personnel training, investments in important technology-based enterprise are recognized by the folw-through method.

Adjustments of prior years' tax are added to or deducted from the current year's tax provision.

Income taxes (10%) on undistributed earnings are recorded as expenses in the year when the shareholders have resolved that the earnings shall be retained.

Foreign-currency transactions

Foreign-currency transactions, except derivative financial instruments, are recorded in New Taiwan Dollars at the rates of exchange in effect when the transactions occur. Gains or losses caused by the application of different foreign exchange rates when foreign-currency receivables or payables are settled, are credited or charged to income in the year of conversion or settlement. At period-end, the balances of foreign-currency assets and liabilities are restated based on prevailing exchange rates and the resulting differences are credited or charged to income.

Derivative financial instruments

Forward exchange contracts and cross currency swap contracts for hedging purposes are recorded at the spot rate on the contract date. The foreign-currency amount of each contract multiplied by the difference between the spot rate and the contracted forward rate is amortized over the contract period. Any resulting gain or loss upon settlement is credited or charged to income in the period of settlement. For cross currency swap contracts entered into as hedges of interest rate exposures, the related interest income and expense are recognized on the basis of contracted interest rates.

At period-end, the balances of forward exchange receivables or payables are translated based on prevailing exchange rates and the resulting gains or losses are credited or charged to income. The net forward contract receivable or payable is presented either as an asset or a liability in the balance sheet.

3. CASH AND CASH EQUIVALENTS

	<u>June 30</u>	
	<u>2002</u>	<u>2001</u>
Time deposits	\$12,605,120	\$12,914,125
Commercial paper purchased	249,569	122,228
Demand deposits	18,980	18,898
Checking accounts	652	1,919
Cash on hand	<u>320</u>	<u>320</u>
	<u>\$12,874,641</u>	<u>\$13,057,490</u>

4. SHORT-TERM INVESTMENTS

	<u>June 30</u>	
	<u>2002</u>	<u>2001</u>
Listed stocks	\$ 324,284	\$ 249,418
Mutual funds	<u>182,650</u>	<u>310,000</u>
	506,934	559,418
Allowance for decline in value	(<u>48,661</u>)	(<u>80,023</u>)
	458,273	479,395
Bonds purchased under resale agreements	<u>12,707</u>	<u>-</u>
	<u>\$ 470,980</u>	<u>\$ 479,395</u>

The market values of mutual funds and stocks as of June 30, 2002 and 2001 were \$458,273 and \$479,395, respectively, based on net asset value of funds as of June 30 and average closing price of listed stocks in June. Bonds as of June 30, 2002 were contracted to be resold for \$12,709 on July 1, 2002.

5. INVENTORIES

	<u>June 30</u>	
	<u>2002</u>	<u>2001</u>
Finished goods	\$ 127,927	\$ 216,796
Work in process	1,266,703	1,880,961
Materials	<u>237,574</u>	<u>304,536</u>
	1,632,204	2,402,293
Allowance for losses	(<u>83,976</u>)	(<u>756,339</u>)
	<u>\$ 1,548,228</u>	<u>\$ 1,645,954</u>

6. LONG-TERM INVESTMENTS

	June 30			
	2002		2001	
	<u>Amount</u>	<u>% of Ownership</u>	<u>Amount</u>	<u>% of Ownership</u>
<u>Investment in share of stocks</u>				
Equity method				
Quantum Vision Corp.	\$ 781,873	99.99	\$ -	-
Li-Hsin Investment Corp.	433,565	99.78	500,425	99.75
Paramax Corp.	145,495	99.96	-	-
MaxEdge Electronics Corp.	127,572	12.50	113,666	10.04
Telmax Technologies Corp.	84,037	21.43	39,684	17.39
Maxium Technologies, Inc.	77,099	32.27	33,675	22.67
Syntronix Corp.	59,375	65.00	-	-
Ceon Computers Corp.	<u>54,310</u>	19.66	<u>31,766</u>	13.33
	<u>1,763,326</u>		<u>719,216</u>	
Cost method				
Powertech Technology Inc.	349,005	9.84	368,993	10.49
Power Quotient International Co., Ltd.	280,963	13.48	291,663	14.11
Optimax Technology Corp.	157,048	3.41	172,446	4.49
Eastern Broadband Telecommunications Co., Ltd.	120,000	0.18	120,000	0.18
Webstorage Corporation	117,915	7.30	117,914	7.30
Besteam Technology Inc.	99,500	10.43	-	-
Universal Venture Fund, Inc.	88,000	4.76	88,000	4.76
TwinMOS Technologies Inc.	55,142	1.34	-	-
Ardentec Corp.	55,000	2.48	55,000	2.49
Power Memory International Co., Ltd.	52,500	7.22	-	-
eMemory Technology Inc.	40,444	9.63	30,800	9.97
Advanced Chip Engineering Technology Inc.	40,257	2.78	40,257	3.03
Cascade Semiconductor Corporation	36,455	16.15	-	-
CDIB High Tech Investment Inc.	30,000	2.11	30,000	2.11
Grate Taipei Broadband Co., Ltd.	25,000	1.67	-	-
Phitech Corporation	24,621	1.27	24,621	1.29
Jade Pacific Corporation	22,500	1.35	22,500	1.35
Emerging Memory & Logic Solution Incorporation	18,924	1.40	-	-
Venglobal Capital Fund L.P.	17,931	5.18	30,660	5.18
Billions of Operations Per Second, Inc. Series D - Preferred Shares	17,225	1.08	-	-

(Forward)

Billions of Operations Per				
Second, Inc. Series A -				
Preferred Shares	\$ 16,175	1.36	\$ 16,175	1.57
Dramexchange.com Corp.	15,540	3.55	15,540	3.55
Venglobal International				
Fund	15,258	2.83	15,258	2.83
Terax Communication				
Technologies Inc.	14,250	3.80	-	-
Area East Technology Corp.	13,000	18.57	-	-
Lightsonic Optoelectronics				
Inc.	8,050	1.42	8,050	1.48
E-Tech, Inc.	3,145	2.26	25,000	2.26
Globalgate.com, Inc.	-	0.93	-	0.93
Hsin Chu Golf Country Club	-	-	6,420	0.24
	<u>1,733,848</u>		<u>1,479,297</u>	
Prepayments				
HuaWei Technology				
International Ltd.	17,280		-	
Cascade Semiconductor				
Corporation	-		17,205	
	<u>17,280</u>		<u>17,205</u>	
<u>Investments in bonds</u>				
UMAX Data Systems Inc.	<u>89,150</u>		-	
	<u>\$3,603,604</u>		<u>\$2,215,718</u>	

The bonds investment above is acquired through private market with certain restrictions on its transferable right under the Law of Security Exchange of the Republic of China.

The Corporation has subscribed to the capital increase of Ceon Computers Corp., Maxium Technologies, Inc. and Telmax Technologies Corp. ("Telmax") which has led to a joint ownership of 27%, 36% and 28%, respectively, by the Corporation and it's subsidiaries in the second quarter of 2001, accordingly these investments have been accounted by equity method. Also, on April 3, 2002, the subsidiaries have subscribed to the capital increase of Telmax which has led to a joint ownership of 55% by the Corporation and the subsidiaries.

As of June 30, 2002 and 2001, the Corporation and it's subsidiaries together have a joint ownership of 42% and 24% in MaxEdge Electronics Corp., respectively, accordingly this investment has been accounted by equity method.

Investment income (losses), which are recognized based on unaudited financial statements are summarized as follows:

	For the Six Months Ended	
	June 30	
	2002	2001
Quantum Vision Corp.	(\$ 30,142)	\$ -
Li-Hsin Investment Corp.	(20,376)	(9,768)
Paramax Corp.	(3,200)	-
MaxEdge Electronics Corp.	(17,654)	(24,978)
Telmax Technologies Corp.	(2,736)	(316)
Maxium Technologies, Inc.	6,709	(325)
Syntronix Corp.	(4,170)	-
Ceon Computers Corp.	17	(234)
	<u>(\$ 71,552)</u>	<u>(\$ 35,621)</u>

7. PROPERTIES

Accumulated depreciation on properties consists of the following:

	June 30	
	2002	2001
Buildings	\$ 772,398	\$ 621,727
Machinery and equipment	16,448,018	12,392,970
Research and development equipment	51,568	31,405
Facility equipment	4,153,692	3,401,338
Transportation equipment	6,343	4,083
Office equipment	98,312	58,024
Miscellaneous equipment	74,163	59,729
	<u>\$21,604,494</u>	<u>\$16,569,276</u>

Total depreciation expenses for the six months ended June 30, 2002 and 2001 were \$2,389,499 and \$2,855,085, respectively, and interest expenses, including amounts capitalized of \$112,784 and \$47,394, for the six months ended June 30, 2002 and 2001, were \$240,214 and \$268,245, respectively. The rates used in capitalization of the interests were 4.25%-4.50% in 2002 and 5.87%-7.02% in 2001.

The Corporation is currently constructing its second manufacturing plant ("FAB II") at total related cost amounting to approximately \$54,300,000. As of June 30, 2002, the cost of \$16,656,240 has been incurred and FAB II is expected to be in production in the fourth quarter of 2002.

The agreement of payable on equipment in the amounts of \$2,397,550 requires the maintenance of specific financial ratios based on annual financial statements.

The details of properties pledged as collateral are shown in Note 19.

8. DEFERRED CHARGES - NET	June 30	
	2002	2001
Technical know-how	\$ 1,513,984	\$ 2,433,517
Computer software system	241,995	121,447
Issuance costs of the convertible bonds	125,330	178,477
Test-run costs	53,382	14,564
Technical service charge	909	14,592
Other	<u>91,394</u>	<u>28,965</u>
	<u>\$ 2,026,994</u>	<u>\$ 2,791,562</u>

Technical know-how fees are amount paid by the Corporation to Mitsubishi Electric Corporation (“Mitsubishi-Japan”) under several agreements for which Mitsubishi-Japan shall transfer to the Corporation certain technologies related to the manufacture of Dynamic Random Access Memory.

9. SHORT-TERM BANK BORROWINGS

These consist of working capital loans, and are payable by August 21, 2002 at interest rates from 3.00% to 4.75%.

Unused credit lines for short-term borrowings as of June 30, 2002 are about \$2,231,316.

10. COMMERCIAL PAPERS ISSUED

These commercial papers, guaranteed by financial institutions, bear annual interest rates of 2.95% to 3.15%, and have maturity date by August 27, 2002.

11. CONVERTIBLE BONDS PAYABLE

These are five year unsecured, zero coupon euro convertible bonds (the “Bonds”) issued and listed in Luxembourg Stock Exchange in the second quarter of 2001 with an aggregate face value of US\$200,000 thousand. The Bonds are convertible into common shares or Global Depository Shares (GDS) of the Corporation at \$30 (adjustable, and at exchange rate of US\$1 to NT\$32.933) per share from June 24, 2001 to April 24, 2006 and will mature on May 24, 2006. The Bonds can also be repurchased, at the option of the holders, on May 24 of each year (commencing in 2002) prior to maturity at 100% of their principal amount. Under certain conditions, either the holders of the Bonds or the Corporation may redeem the bonds prior to the maturity date.

As of July 23, 2002, the Bonds in the amount of US\$13,320 thousand are requested to be exchanged into 17,760 thousand shares of entitlement certificates, in which 17,547 thousand shares have been converted into the common stocks.

12. LONG-TERM BANK LOANS

	<u>June 30</u>	
	<u>2002</u>	<u>2001</u>
Long-term secured syndicated loans (1) New Taiwan Dollars	\$ 263,636	\$ 976,619
Long-term secured syndicated loans (2) U.S. Dollars - US\$131,250 thousand in 2002 and US\$72,000 thousand in 2001	4,404,488	2,479,320
Long-term secured syndicated loans (3) (including commercial paper issued) - New Taiwan Dollars	2,600,000	2,600,000
Long-term secured syndicated loans (4) New Taiwan Dollars	1,000,000	-
Medium to long-term loans New Taiwan Dollars	554,171	1,189,581
Japanese Yen - ¥88,182 thousand in 2002 and ¥401,336 thousand in 2001	24,867	111,291
U.S. Dollars - US\$53 thousand in 2002 and US\$105 thousand in 2001	<u>1,762</u>	<u>3,616</u>
	8,848,924	7,360,427
Current portion	(1,958,701)	(1,746,954)
Unamortized discount of commercial papers issued	(<u>4,444</u>)	(<u>1,818</u>)
	<u>\$ 6,885,779</u>	<u>\$ 5,611,655</u>

Unused credit lines available for long-term bank loans as of June 30, 2002 were about \$6,000,000.

The loans are due in quarterly or semi-annual installments of varying amounts. They will be fully repaid by May 2007. They also bear interest rate ranging from 1.00% to 7.94% and from 1.37% to 8.14% for the six months ended June 30, 2002 and 2001, respectively.

The long-term secured loans were obtained from syndicates of banks. The loan agreements require, among others, the maintenance of specific financial ratios based on annual financial statements.

The details of assets pledged as collateral are shown in Note 19.

13. PENSION PLAN

The Corporation has a retirement plan covering all regular employees, which provides benefits based on length of service and average salaries and wages for the final six months of employment. The Corporation makes monthly contributions to the pension fund (the "Fund") equal to 2% of salaries and wages paid. The Fund is administered by a pension fund committee and the contributions to the Fund are deposited with Central Trust of China under the Committee's Name.

Pension costs based on actuarial calculation for the six months ended June 30, 2002 and 2001 were \$9,923 and \$8,832, respectively.

The balances of the Fund were \$100,308 and \$79,099 as of June 30, 2002 and 2001, respectively.

14. SHAREHOLDERS' EQUITY

Capital surplus, pursuant to ROC Company Law, can only be used to offset a deficit or be transferred to capital as a stock dividend. Such transfer from capital surplus to capital as a stock dividend is limited to the excess of issue price over the par value of stock issued and should be distributed to shareholders based on their proportionate share of ownership.

The Corporation's Articles of Incorporation provide that the annual net income, after offsetting against any deficit, shall be appropriated as follows:

- a. 10% as legal reserve;
- b. Special reserve;
- c. Cash dividends and bonus to preferred stocks based on the terms of their issuance;
- d. Bonus to directors and supervisors, and to employees, equal to 3% and 10% of the balance after deducting items a, b and c, respectively;
- e. The remainder, as bonus to shareholders.

These appropriations and the disposition of the earnings shall be approved by the shareholders in the following year and given effect to in the financial statements of that year.

Pursuant to regulations promulgated by the Securities and Futures Commission ("SFC"), a special reserve equivalent to the debit balance of any account shown in the shareholders' equity section of the balance sheets, other than the deficit and treasury stock, shall be made from unappropriated retained earnings. The balance of the special reserve shall be adjusted accordingly based on the debit balance of such accounts as at year-end.

The Corporation's policy is to declare at least 60% of its available earnings as dividends and that at least 50% of the dividend shall be in the form of shares of stock.

The ROC Company Law provides that the aforementioned appropriation for legal reserve shall be made until the reserve equals the aggregate par value of the Corporation's issued capital stock. Such reserve may be used to offset a deficit; also, when the reserve has reached 50% of the aggregate par value of the Corporation's issued capital stock, up to 50% thereof can be distributed as stock dividend.

Under the Integrated Income Tax System that became effective on January 1, 1998, resident shareholders (including corporate shareholders) are allowed a tax credit for the income tax paid by the Corporation on earnings generated in 1998 and onwards. An Imputation Credit Account (ICA) is maintained by the Corporation to monitor the balances of the income tax paid and the tax credit allocated to each shareholder. The maximum credit available for allocation to each shareholder cannot exceed the balance shown in the ICA on the date of dividend distribution.

The shareholders of the Corporation has resolved on May 29, 2002 to offset deficit by transferring the accumulated gains of \$99,280 on the disposal of properties generated prior to 2000. Such gains on the disposal of properties generated prior to 2001 were previously classified as capital surplus account under shareholders' equity.

The Corporation has received approval from SFC on May 28, 2001 and June 28, 2002 on its adoption of the employee stock option plans ("the Plans"). The Plans aggregately reserve 300,000 units of option, each representing 1,000 common share of stock, with total of 300,000 thousand shares for issuance. These options under the Plans generally vest over a period of two years from two years after the date of grant at certain percentage, and can be exercised within four years from two years after the date of grant. As of July 23, 2002, 136,484 units of option have been granted under the Plans.

On June 19, 2002, the board of directors has approved the 2nd planned issuance of no more than US\$200,000 thousand of convertible bonds (the "Bonds"). Such planned issuance will then be submitted to the SFC for approval.

15. TREASURY STOCK

<u>Purpose of Purchase</u>	(Shares in Thousand)			<u>Ending Shares</u>
	<u>Beginning Shares</u>	<u>Increase</u>	<u>Decrease</u>	
<u>Six months ended June 30, 2002</u>				
Subsequently transferring to employees	45,149	45,377	26,391	64,135
The parents' share of capital stocks held by subsidiaries	<u>3,334</u>	<u>270</u>	<u>-</u>	<u>3,604</u>
	<u>48,483</u>	<u>45,647</u>	<u>26,391</u>	<u>67,739</u>
<u>Six months ended June 30, 2001</u>				
Subsequently transferring to employees	<u>30,000</u>	<u>-</u>	<u>360</u>	<u>29,640</u>

As of June 30, 2002, the Corporation accounted for its share of capital stocks held by subsidiaries as a treasury stock in the amount of \$56,484 and the carrying value and the market value of such stocks were \$66,819 and \$67,000, respectively.

According to the SFC regulation, a Corporation shall acquire no more than 10% of the total issued shares of its own capital stock. The redeemed shares are not available for pledge and are also not entitled to any shareholder's right before transferring. In additions, the aggregate acquisition cost can not exceed combined balance of the retained earnings and specific capital surplus. However, the Corporation's share of stocks held by subsidiaries, although accounted for under treasury stock method, is still entitled shareholders' right and privilege.

16. INCOME TAX BENEFIT

- a. For the six months ended June 30, 2002 and 2001, the Corporation did not have current income tax expense payable.
- b. Income tax benefits as of June 30, 2002 and 2001 consist of:

	For the Six Months Ended	
	June 30	
	<u>2002</u>	<u>2001</u>
Income tax currently payable	\$ -	\$ -
Additional 10% tax on the unappropriated earnings	-	24,841
Investment tax credits	-	(24,841)
Net change in deferred income tax assets and liabilities		
Loss carryforwards	178,171	687,835
Investment tax credits	181,609	670,605
Temporary differences	(136,164)	14,437
Valuation allowance	138,100	(628,623)
Tax on interest income on short-term bills	(45)	(329)
	<u>\$ 361,671</u>	<u>\$ 743,925</u>

- c. Deferred income tax assets and liabilities were as follows:

	June 30	
	<u>2002</u>	<u>2001</u>
Current		
Deferred income tax assets		
Investment tax credits	\$ 365,970	\$ 365,072
Loss carryforwards	261,158	336,231
Unrealized provision for loss on inventories	20,994	189,085
Other	18,875	23,816
Deferred income tax liabilities	(75)	(7,357)
	666,922	906,847
Valuation allowance	(584,428)	(701,303)
	<u>\$ 82,494</u>	<u>\$ 205,544</u>

(Forward)

	<u>June 30</u>	
	<u>2002</u>	<u>2001</u>
Noncurrent		
Deferred income tax assets		
Investment tax credits	\$ 2,628,054	\$ 2,462,219
Loss carryforwards	3,332,213	2,245,545
Unrealized foreign exchange loss	82,228	63,303
Other	37,438	22,304
Deferred income tax liabilities		
Depreciation	(938,892)	(942,601)
Other	<u>-</u>	<u>(94)</u>
	5,141,041	3,850,676
Valuation allowance	<u>(2,781,441)</u>	<u>(1,236,258)</u>
	<u>\$ 2,359,600</u>	<u>\$ 2,614,418</u>

d. The related information under the Integrated Income Tax System is as follows:

	<u>June 30</u>	
	<u>2002</u>	<u>2001</u>
Shareholders' imputed tax credits	<u>\$ 4,244</u>	<u>\$ 209</u>

There was no tax creditable ratio for 2001 because of deficit. The actual tax creditable ratio for 2000 was 0.15%.

- e. The unappropriated retaining earnings as of June 30, 2002 and 2001 did not contain the unappropriated earnings generated on and before 1997.
- f. The effective tax rates for deferred income tax as of June 30, 2002 and 2001 were 25%.
- g. As of June 30, 2002, the tax credits and loss carryforwards consist of following:

<u>Regulation</u>	<u>Items</u>	<u>Total Creditable Amounts</u>	<u>Remaining Creditable Amounts</u>	<u>Expiration Year</u>
Income Tax Law	Loss carryforwards	\$ 261,158	\$ 261,158	2002
		1,440,230	1,440,230	2003
		328,823	328,823	2004
		1,403,200	1,403,200	2006
		<u>159,960</u>	<u>159,960</u>	2007
		<u>\$3,593,371</u>	<u>\$3,593,371</u>	

(Forward)

Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 361,366	\$ 356,639	2002
		359,659	358,587	2003
		895,358	602,152	2004
		185,886	173,462	2005
		<u>10,665</u>	<u>10,665</u>	2006
		<u>\$1,812,934</u>	<u>\$1,501,505</u>	
Statute for Upgrading Industries	Research and development expenditures	\$ 7,855	\$ 7,855	2002
		216,798	216,798	2003
		556,205	556,205	2004
		518,600	518,600	2005
		<u>153,829</u>	<u>153,829</u>	2006
		<u>\$1,453,287</u>	<u>\$1,453,287</u>	
Statute for Upgrading Industries	Personnel training expenditures	\$ 1,476	\$ 1,476	2002
		2,586	2,586	2003
		4,386	4,386	2004
		4,686	4,686	2005
		<u>1,858</u>	<u>1,858</u>	2006
		<u>\$ 14,992</u>	<u>\$ 14,992</u>	
Statute for Upgrading Industries	Investments in important technology based enterprise	\$ 12,000	\$ 12,000	2003
		<u>12,240</u>	<u>12,240</u>	2004
		<u>\$ 24,240</u>	<u>\$ 24,240</u>	

h. The income from the following projects is exempt from income tax:

Tax-Exemption Period

Original investment in the first manufacturing plant before 1996	2000~2004
Expansion of the first manufacturing plant in 1997	2001~2005

i. Income tax returns through 1999 have been examined and cleared by the tax authorities.

17. EARNINGS (LOSS) PER SHARE (EPS)

A reconciliation of numerator and denominator of basic and diluted earning (loss) per share calculations is provided as follows:

	<u>Amounts (Numerator)</u>		Share (Denominator) (Thousand)	<u>EPS (Dollars)</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>		<u>Before Income Tax</u>	<u>After Income Tax</u>
<u>Six months ended June 30, 2002</u>					
Net income (loss)	(\$ 121,372)	\$ 240,299			
Basic earnings (loss) per share					
Income (loss) available to common shareholders	(121,372)	240,299	2,363,200	(\$ 0.05)	\$ 0.10
Effect of dilutive securities					
- Convertible bonds	-	-	253,366		
- Stock option	-	-	35,919		
Diluted earnings (loss) per share					
Income (loss) available to common and potential common shareholders	(\$ 121,372)	\$ 240,299	2,652,485	(\$ 0.05)	\$ 0.09
<u>Six months ended June 30, 2001</u>					
Net loss	(\$1,623,450)	(\$ 879,525)			
Basic and diluted loss per share					
Loss available to common shareholders	(\$1,623,450)	(\$ 879,525)	2,281,871	(\$ 0.71)	(\$ 0.39)

18. RELATED PARTY TRANSACTIONS

a. Related parties:

	<u>Relationship</u>
Powertech Technology Inc. (Powertech)	Quantum Vision Corp., a subsidiary of the Corporation, is its director
UMAX Data Systems Inc. (UMAX)	Same chairman
Mitsubishi Electric Corp. (Mitsubishi-Japan)	Director
Vanguard International Semiconductor Corporation (Vanguard)	Director
Mitsubishi Electric Taiwan Company (Mitsubishi-Taiwan)	Subsidiary of Mitsubishi-Japan
Power Quotient International Co., Ltd. (Power)	The Corporation is its director
Ceon Computers Corp. (Ceon)	An investee under equity method
Quantum Vision Corp. (Quantum Vision)	A subsidiary

b. Related party transactions other than those disclosed in other notes:

	For the Six Months Ended June 30			
	2002		2001	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>For the period</u>				
1) Net sales				
Mitsubishi-Taiwan	\$ 983,704	14	\$ 2,727,974	35
Power	906,993	13	1,091,656	14
Ceon	121,592	2	1,916	-
Vanguard	80	-	67,450	1
Other	<u>1,937</u>	<u>-</u>	<u>235</u>	<u>-</u>
	<u>\$ 2,014,306</u>	<u>29</u>	<u>\$ 3,889,231</u>	<u>50</u>
2) Purchases				
Mitsubishi-Taiwan	\$ -	-	\$ 19,208	1
Other	<u>-</u>	<u>-</u>	<u>288</u>	<u>-</u>
	<u>\$ -</u>	<u>-</u>	<u>\$ 19,496</u>	<u>1</u>
3) Properties				
Mitsubishi-Taiwan	\$ 351,773	3	\$ 53,091	2
Other	<u>2,886</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 354,659</u>	<u>3</u>	<u>\$ 53,091</u>	<u>2</u>
4) Technical know-how and royalty				
Mitsubishi-Japan	<u>\$ 432,063</u>	<u>78</u>	<u>\$ 122,388</u>	<u>67</u>
5) Manufacturing expenses – sub-contract costs, indirect materials, expensed properties, repairs and maintenance and others				
Powertech	\$ 1,018,185	19	\$ 1,106,508	17
Mitsubishi-Japan	3,680	-	31,356	-
Other	<u>5,671</u>	<u>-</u>	<u>1,054</u>	<u>-</u>
	<u>\$ 1,027,536</u>	<u>19</u>	<u>\$ 1,138,918</u>	<u>17</u>
6) General and administrative expense				
Mitsubishi-Japan	\$ 11,588	2	\$ -	-
Other	<u>682</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 12,270</u>	<u>2</u>	<u>\$ -</u>	<u>-</u>
7) Deferred charges-computer software system, etc.				
Mitsubishi-Japan	<u>\$ 2,177</u>	<u>-</u>	<u>\$ 27,545</u>	<u>12</u>

(Forward)

	For the Six Months Ended June 30			
	2002		2001	
	Amount	%	Amount	%
8) Interest income				
Powertech	\$ 20,390	18	\$ 48,099	21
Other	<u>643</u>	<u>1</u>	<u>-</u>	<u>-</u>
	<u>\$ 21,033</u>	<u>19</u>	<u>\$ 48,099</u>	<u>21</u>
	June 30			
	2002		2001	
<u>At end of period</u>				
1) Accounts receivable - net				
Mitsubishi-Taiwan	\$ 177,293	13	\$ 481,496	39
Power	36,552	3	86,441	7
Ceon	5,378	-	-	-
Vanguard	10	-	17,084	1
Other	<u>1,299</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 220,532</u>	<u>16</u>	<u>\$ 585,021</u>	<u>47</u>
2) Accounts payable				
Powertech	\$ 404,743	32	\$ 441,323	35
Other	<u>945</u>	<u>-</u>	<u>2,688</u>	<u>-</u>
	<u>\$ 405,688</u>	<u>32</u>	<u>\$ 444,011</u>	<u>35</u>
3) Payable on equipment				
Mitsubishi-Taiwan	<u>\$ 5,796</u>	<u>-</u>	<u>\$ 6,838</u>	<u>1</u>
4) Accrued expenses				
Mitsubishi-Japan	\$ 74,938	11	\$ 130,901	21
Powertech	-	-	7,660	1
Other	<u>268</u>	<u>-</u>	<u>241</u>	<u>-</u>
	<u>\$ 75,206</u>	<u>11</u>	<u>\$ 138,802</u>	<u>22</u>
5) Installment equipment receivable and other receivables				
Powertech				
Current	\$ 353,639	65	\$ 807,197	60
Noncurrent	-	-	353,295	26
Other	<u>2,315</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 355,954</u>	<u>65</u>	<u>\$1,160,492</u>	<u>86</u>

The Corporation also purchased (sold) the following long-term investments from (to) related parties for the period ended June 30, 2002 and 2001:

1) Stocks

<u>Related Parties</u>	<u>Investee</u>	<u>Shares Purchased (Sold) (In Thousand)</u>	<u>Costs (Proceeds)</u>	<u>Loss</u>
<u>2002</u>				
UMAX	Besteam Technology Inc.	1,500	<u>\$ 57,000</u>	-
Quantum Vision	Powertech Technology Inc.	(1,250)	<u>(\$ 20,000)</u>	<u>(\$ 48)</u>
<u>2001</u>				
UMAX	Optimax Technology Corp.	2,700	\$ 87,450	-
UMAX	Universal Venture Fund, Inc.	8,000	88,000	-
			<u>\$175,450</u>	

2) Bonds

<u>Related Parties</u>	<u>Investee</u>	<u>Units</u>	<u>Amount</u>	<u>Rate</u>
<u>2002</u>				
UMAX	UMAX Bonds	18	<u>\$89,100</u>	4.31%

Under a purchase agreement entered into in October 1996, the Corporation shall sell DRAM bearing Mitsubishi brand to Mitsubishi - Japan through Mitsubishi - Taiwan within the term of the agreement.

Also, starting in October 2000, the Corporation's subcontract activities with Powertech Technology Inc. are performed within the term of the subcontract cooperation agreement (see Note 20-d). Also, the installment equipment receivable is bearing annual interest rate of 7%.

Except for the aforementioned transactions with Mitsubishi-Taiwan and Powertech, for which the Corporation has no comparable counterparties, all transactions with other related parties are conducted based on normal commercial prices and terms.

19. PLEDGED OR MORTGAGED ASSETS

The following assets are pledged or mortgaged as collateral for long-term bank loans, letters of credit and bonded inventories:

	<u>June 30</u>	
	<u>2002</u>	<u>2001</u>
Properties - net	\$12,624,072	\$16,750,779
Other assets - land	311,510	311,510
Pledged time deposits	<u>930,823</u>	<u>4,000</u>
	<u>\$13,866,405</u>	<u>\$17,066,289</u>

20. COMMITMENTS AND CONTINGENCIES

- a. Under a patent license agreement with A Company executed in February 1999, the Corporation shall pay royalty for ten years from January 1, 1998 at an agreed percentage of the sale price of the licensed products.
- b. Under a patent license agreement with B Company executed in September 1998, the Corporation shall pay a specific amount of royalty annually for five years from 1998.
- c. Under several license and technology transfer agreements executed or amended with C Company, the Corporation shall pay royalties at agreed percentages of the sale price of certain specific licensed products starting from June 1998 to May 2007.
- d. The Corporation sold its packaging and testing related equipment and assets to Powertech Technology Inc. ("Powertech") on October 1, 2000 ("transfer date"), and both parties had reached a subcontract cooperation agreement which provided that Powertech shall guarantee specific production capacity to the Corporation for two years starting from the transfer date, and the Corporation shall subcontract packaging and testing works to Powertech based on the quantity and price specified in the agreement. In the event of default on the agreement, either party shall be compensated or shall re-negotiate on the quantity and price specified in the agreement.
- e. Under a product development and license agreement with E Company executed in July 2001, the Corporation shall pay royalty at an agreed percentage of the sale price of the licensed products sold by 2004.
- f. The Corporation has a joint ownership with other parties on a parcel of land accounted as other assets, such land was used by all owners to secure their respective loans obtained from the bank. Due to one of the co-owners defaulted his payment obligation, the District Court of Hsinchu has granted the plea of the bank to foreclose the land by a public auction to satisfy its unpaid loan. As of July 23, 2002, the public auction has not been done yet, and the Corporation is unable to determine the loss it will incur as a result of such foreclosure since it is difficult to estimate the proceeds of sale from the public auction. In addition, the Corporation has a right of seeking indemnity if any loss incurred from such co-owner in default.

- g. Unused letters of credit of about US\$130,348 thousand and ¥ 2,544,587 thousand as of June 30, 2002.
- h. The Corporation has leased two parcels of land from the Science-Based Industrial Park Administration (SBIP) for twenty years from April 1995 and October 1998, respectively, renewable upon expiration. The current minimum annual rent is \$56,760 which is subject to adjustment by SBIP according to its rule.

21. DERIVATIVE FINANCIAL INSTRUMENTS

- a. Outstanding contracts and credit risk:

Items	June 30, 2002		Credit Risk
	Contract Amount (Nominal Amount)		
Cross currency swap	US\$4,500 thousand (US\$ to NT\$) floating US\$ interest rate swap for fixed NT\$ interest rates from 6.7% to 6.95%		\$ -
Forward exchange contracts	JPY2,200,000 thousand (JPY to US\$) US\$169,000 thousand (US\$ to NT\$)		17,422 -

The Corporation is exposed to credit risk in the event of nonperformance of forward exchange contracts by the counterparties on maturity. In order to minimize this risk, the Corporation transacts only with financial institutions with good credit ratings. Thus, no material losses from the above are anticipated.

- b. Market risk - The Corporation enters into cross currency swap and forward exchange contracts to hedge the effect of interest rate or foreign currency fluctuation on its net foreign currency-denominated assets or liabilities. Thus, gain or loss arising from exchange rate and interest rate fluctuations will approximately be offset by those hedged items. The potential market risk is insignificant.
- c. Liquidity risk, cash flow risk and uncertainty of amount and term of future cash demand

As of June 30, 2002, the Corporation's future cash demand for the outstanding cross currency swap and forward exchange contracts is as follows:

Term	Forward Exchange Contracts		Cross Currency Swap	
	Inflow	Outflow	Inflow	Outflow
Within one year	JPY 2,200,000 thousand	US\$ 17,959 thousand	US\$ 4,500 thousand	NT\$ 145,515
	US\$ 169,000 thousand	NT\$ 5,781,184		

The Corporation has sufficient operating capital to meet the above cash demand, and the exchange rate of cross currency swap contracts have been fixed, so there is no material fund raising risk and cash flow risk.

d. Kinds and purpose of derivative financial instruments held and related strategies

The Corporation contracted or entered into the derivative financial transactions, completely for hedging purpose other than trading. The Corporation entered into forward exchange contracts and cross currency swap to hedge the effect of exchange rate fluctuations on net foreign currency-denominated assets and liabilities. The purpose of hedging strategies is to hedge market risk the Corporation is exposed to. The Corporation has designated hedging instruments as high correlations with the fair value of the hedged item and periodically evaluates the effectiveness of the instruments.

e. Other information

The realized exchange gain derived from settled forward exchange contracts and cross currency swap was \$66,547 for the six months ended June 30, 2002; which gain was presented under non-operating income. The payable of \$111,317 as of June 30, 2002 attributable to forward exchange contracts and cross currency swap was presented under current liabilities. The interest income and expense generated from cross currency swap for the six months ended June 30, 2002 were \$742 and \$2,383, respectively; which amounts were presented under non-operating income (expenses) section of the statements of income.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

	June 30			
	2002		2001	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
<u>Non-derivative instruments</u>				
Assets				
Cash and cash equivalents	\$ 12,874,641	\$ 12,874,641	\$ 13,057,490	\$ 13,057,490
Notes and accounts receivable	1,364,729	1,364,729	1,340,219	1,340,219
Short-term and long-term investments	4,074,584	4,211,820	2,695,113	2,180,679
Pledged time deposits	930,823	930,823	4,000	4,000
Refundable deposits	21,622	21,622	15,334	15,334
Liabilities				
Short-term bank borrowings and commercial papers issued	1,098,805	1,098,805	-	-
Accounts payable and payable on equipment	12,541,712	12,541,712	2,436,669	2,436,669
Convertible bonds payable	6,264,608	5,900,509	6,887,000	6,887,000
Long-term bank loans (including current portion)	8,844,480	8,844,480	7,358,609	7,358,609
Guarantee deposits	1,393	1,393	946	946
<u>Derivative instruments</u>				
Cross currency swap	5,496 (953) (93,681) (108,393)
Forward contract	(116,813)	(95,025)	-	-

The methods and assumptions applied in estimating fair values were as follows:

- a. The carrying amounts reported in the balance sheets for cash and cash equivalents, notes and accounts receivable, pledged time deposits, accounts payable, payable on equipment, short-term bank borrowings, commercial papers issued approximate their fair values.
- b. Fair value of short-term and long-term investments is based on quoted market prices or, if quoted market prices are unavailable, upon net worth or book value.
- c. Fair value of long-term bank loans is estimated using discounted cash flow analysis, based on the Corporation's current incremental borrowing rates for similar types (similar maturity dates) of borrowings. The fair value of long-term bank loans of the Corporation all bearing floating interest rates is equivalent to their book value. Fair value of convertible bonds payable is based on quoted market prices.
- d. Fair value of refundable deposits and guarantee deposits is based on their book value.
- e. Fair value of derivative financial instruments is the estimated net receivable (positive) or payable (negative) if those contracts are terminated on the balance sheets date.

23. ADDITIONAL DISCLOSURES

Except the followings, the Corporation has no other significant transactions, investees and investments in Mainland China information that are the additional disclosures required by the SFC:

- a. Marketable securities held: Please see Table 1 attached.
- b. Marketable securities acquired and disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Please see Table 2 attached.
- c. Acquisition of individual real estates at costs of at least NT\$100 million or 20% of the paid-in capital: Please see Table 3 attached.
- d. Total purchase from or sale to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 4 attached.
- e. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 5 attached.
- f. Names, locations, and related information of investees on which the Corporation exercises significant influence: Please see Table 6 attached.
- g. Derivative financial transactions: Please see Notes 21 and 22.

POWERCHIP SEMICONDUCTOR CORPORATION AND INVESTEEES

MARKETABLE SECURITIES HELD

June 30, 2002

(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2002				Note
				Shares (Thousand)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
PSC	<u>Stock</u>							
	Quantum Vision Corp.	Subsidiary	Long-term investments	79,990	\$ 781,873	99.99	\$ 781,728	Note 4
	Li-Hsin Investment Corp.	Subsidiary	Long-term investments	68,850	433,565	99.78	504,724	Note 4
	Paramax Corp.	Subsidiary	Long-term investments	14,994	145,495	99.96	145,494	Note 4
	MaxEdge Electronics Corp.	Investee	Long-term investments	23,648	127,572	12.50	127,560	Note 4
	Telmax Technologies Corp.	Subsidiary	Long-term investments	9,000	84,037	21.43	84,589	Note 4
	Maxium Technologies, Inc.	Investee	Long-term investments	7,100	77,099	32.27	76,347	Note 4
	Syntronix Corp.	Subsidiary	Long-term investments	6,500	59,375	65.00	59,375	Note 4
	Ceon Computers Corp.	Investee	Long-term investments	5,700	54,310	19.66	52,589	Note 4
	Powertech Technology Inc.	Quantum Vision is its director	Long-term investments	21,828	349,005	9.84	253,114	Note 4
	Power Quotient International Co., Ltd.	The Corporation is its director	Long-term investments	8,087	280,963	13.48	632,957	-
	Optimax Technology Corp.	The Corporation is its director	Long-term investments	6,009	157,048	3.41	88,359	Note 4
	Eastern Broadband Telecom Co., Ltd.	-	Long-term investments	12,000	120,000	0.18	120,823	Note 4
	Webstorage Corp.	Same chairman	Long-term investments	4,378	117,915	7.30	35,386	Note 4
	Besteam Technology Inc.	-	Long-term investments	3,200	99,500	10.43	99,500	Note 2
	Universal Venture Fund, Inc.	Same chairman	Long-term investments	8,000	88,000	4.76	71,441	Note 4
	TwinMOS Technologies Inc.	-	Long-term investments	2,757	55,142	1.34	55,142	Note 2
	Ardentec Corp.	-	Long-term investments	5,050	55,000	2.48	55,000	Note 2
	Power Memory International Co., Ltd.	-	Long-term investments	1,500	52,500	7.22	59,862	Note 4
	eMemory Technology Inc.	Same chairman	Long-term investments	3,852	40,444	9.63	31,310	Note 4
	Advanced Chip Engineering Technology Inc.	-	Long-term investments	3,334	40,257	2.78	26,229	Note 4
	Cascade Semiconductor Corp.	-	Long-term investments	2,333	36,455	16.15	36,455	Note 2
	CDIB High Tech Investment Inc.	The Corporation is its director	Long-term investments	3,000	30,000	2.11	30,959	Note 4
	Grate Taipei Broadband Co., Ltd.	The Corporation is its director	Long-term investments	2,500	25,000	1.67	25,005	Note 4
	Phitech Corp.	-	Long-term investments	291	24,621	1.27	24,621	Note 2
	Jade Pacific Corp.	-	Long-term investments	250	22,500	1.35	22,500	Note 2
	Emerging Memory & Logic Solution Inc.	-	Long-term investments	279	18,924	1.40	18,924	Note 2
	<u>Equity</u>							
	Venglobal Capital Fund L.P.	-	Long-term investments	-	17,931	5.18	17,931	Note 2

(Forward)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2002				Note
				Shares (Thousand)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	<u>Stock</u>							
	Billions of Operations Per Second, Inc. Series D - preferred shares	-	Long-term investments	658	\$ 17,225	1.08	\$ 17,225	Note 2
	Billions of Operations Per Second, Inc. Series A - preferred shares	-	Long-term investments	833	16,175	1.36	16,175	Note 2
	Dramexchange.com Corp.	-	Long-term investments	1,000	15,540	3.55	15,540	Note 2
	<u>Equity</u>							
	Venglobal International Fund	-	Long-term investments	1	15,258	2.83	15,258	Note 2
	<u>Stock</u>							
	Terax Communication Technologies Inc.	Same chairman	Long-term investments	950	14,250	3.80	9,600	Note 4
	Area East Technology Corp.	-	Long-term investments	1,300	13,000	18.57	13,726	Note 4
	Lightsonic Optoelectronics Inc.	Same chairman	Long-term investments	700	8,050	1.42	5,716	Note 4
	E-Tech. Inc.	The Corporation is its director	Long-term investments	2,000	3,145	2.26	3,145	Note 2
	Globalgate.com, Inc.	-	Long-term investments	500	-	0.93	-	Note 2
	<u>Bonds</u>							
	UMAX Data Susters Inc.	Same chairman	Long-term investments	18	89,150	-	89,150	Note 2
	<u>Stock</u>							
	United Microelectronics Corp.	-	Short-term investments	1,323	95,381	-	55,545	-
	Shinkong Financial Holding Co., Ltd.	-	Short-term investments	4,235	84,391	-	83,889	-
	Winbond Electronics Corp.	-	Short-term investments	1,076	79,889	-	21,510	-
	Merida Industry Co., Ltd.	-	Short-term investments	991	31,735	-	13,626	-
	OmniVision Technologies Inc.	-	Short-term investments	233	22,225	-	102,586	-
	NewSoft Technology Corp.	Same chairman	Short-term investments	324	7,333	-	5,301	-
	Broadcom Corp.	-	Short-term investments	4	3,330	-	2,419	-
	<u>Equity</u>							
	NAM Short term Fixed Income Fund	-	Short-term investments	403	172,650	-	168,447	Note 1
	United New Century Fund	-	Short-term investments	1,000	10,000	-	4,950	Note 1
	<u>Bonds</u>							
	Bonds purchased under resale agreements	-	Short-term investments	-	12,707	-	12,709	Note 3
Li-Hsin	<u>Stock</u>							
	MaxEdge Electronics Corp.	Same chairman	Long-term investments	24,220	130,649	12.80	130,633	Note 4
	Telmax Technologies Corp.	Investee	Long-term investments	10,000	95,177	23.81	93,990	Note 4
	Ceon Computers Corp.	Investee	Long-term investments	3,300	31,621	11.38	30,448	Note 4
	Optimax Technology Corp.	PSC is its director	Long-term investments	1,053	35,386	0.77	19,945	Note 4
	Turnkey Manufacturing Solutions, Inc.	-	Long-term investments	1,212	14,254	1.16	14,254	Note 2
	Innovation Group, Inc.	-	Long-term investments	626	9,390	1.25	9,390	Note 2
	eWave Technology	Same chairman	Long-term investments	900	9,000	18.00	9,000	Note 2
	Gatetech Technology Inc.	-	Long-term investments	165	5,784	0.35	5,784	Note 2

(Forward)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2002				Note	
				Shares (Thousand)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value		
Quantum Vision	Explore Technology Electronics Inc.	-	Long-term investments	500	\$ 5,000	4.17	\$ 5,000	Note 2	
	Getsilicon.net Inc.	-	Long-term investments	400	3,071	2.20	3,071	Note 2	
	CurioBox Interactive Marketing Co., Ltd.	-	Long-term investments	171	-	2.44	-	Note 2	
	<u>Bonds</u>								
	UMAX Data Systems Inc.	Same chairman	Long-term investments	2	9,900	-	9,900	Note 2	
	<u>Stock</u>								
	Powerchip Semiconductor Corp.	Parent Company	Short-term investments	3,334	95,561	0.14	64,155	-	
	NewSoft Technology Corp.	Same chairman	Short-term investments	1,041	28,519	1.91	17,034	-	
	Genuine C & C Inc.	The Corporation is its supervisor	Short-term investments	100	2,142	0.11	1,194	-	
	<u>Bonds</u>								
	Bonds purchased under resale agreements	-	Short-term investments	-	22,302	-	22,312	Note 3	
	<u>Stock</u>								
	MaxEdge Electronics Corp.	Same chairman	Long-term investments	16,800	145,388	8.88	90,627	Note 4	
	Ceon Computers Corp.	Investee	Long-term investments	2,000	19,748	6.90	18,462	Note 4	
	Maxium Technologies, Inc.	Investee	Long-term investments	1,500	16,723	6.82	16,134	Note 4	
	AVAC Systems Inc.	Investee	Long-term investments	1,171	12,892	13.01	12,364	Note 4	
	Telmax Technologies Corp.	Investee	Long-term investments	2,600	24,940	6.19	24,435	Note 4	
	Optimax Technology Corp.	PSC is its director	Long-term investments	4,209	95,670	2.39	61,906	Note 4	
	Besteam Technology Inc.	-	Long-term investments	1,600	45,200	5.21	45,200	Note 2	
	Powertech Technology Inc.	Quantum Vision is its director	Long-term investments	3,250	40,000	1.47	37,808	Note 4	
	Powervision Technologies, Inc.	Same chairman	Long-term investments	2,600	26,000	11.87	26,000	Note 2	
	Terax Communication Technologies Inc.	Same chairman	Long-term investments	1,807	24,055	7.23	18,266	Note 4	
	Billions of Operations Per Second, Inc.	-	Long-term investments	200	17,237	0.38	17,237	Note 2	
	Webstorage Corp.	Same chairman	Long-term investments	1,800	17,200	3.00	14,550	Note 4	
	eMemory Technology Inc.	Same chairman	Long-term investments	700	16,800	2.27	7,381	Note 4	
	Deutron Electronics Corp.	Same chairman	Long-term investments	1,400	14,000	14.00	14,000	Note 2	
	Grate Taipei Broadband Co., Ltd.	PSC is its director	Long-term investments	900	9,000	0.90	13,503	Note 4	
	Emerging Memory & Logic Solution Incorporation	-	Long-term investments	102	6,892	0.51	6,892	Note 2	
	Cascade Semiconductor Corp.	-	Long-term investments	444	6,891	-	6,891	Note 2	
	Nobex Corp.	-	Long-term investments	40	3,444	-	3,444	Note 2	
<u>Bonds</u>									
UMAX Data System Inc.	Same chairman	Long-term investments	4	19,800	-	19,800	Note 2		
<u>Stock</u>									
Shinkong Financial Holding Co., Ltd.	-	Short-term investments	928	19,018	0.04	18,381	-		
UNAX Data Systems Inc.	Same chairman	Short-term investments	2,000	11,438	0.47	9,060	-		
<u>Equity</u>									
TIIM Bond	-	Short-term investments	1,568	20,363	-	20,597	Note 1		

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2002				Note
				Shares (Thousand)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Paramax	<u>Stock</u>							
	MaxEdge Electronics Corp.	Same chairman of PSC	Long-term investments	6,828	\$ 59,088	3.61	\$ 36,843	Note 4
	Telmax Technologies Corp.	Investee	Long-term investments	1,400	13,484	3.33	13,145	Note 4
	Ceon Computers Corp.	Investee	Long-term investments	300	2,966	1.03	2,756	Note 4
	Maxium Technologies, Inc.	Investee	Long-term investments	100	1,118	0.45	1,065	Note 4
	Optimax Technology Corp.	PSC is its director	Long-term investments	715	14,922	0.51	13,210	Note 4
	Besteam Technology Inc.	-	Long-term investments	130	4,940	0.42	4,940	Note 2
	Powervision Technologies, Inc.	Same chairman of PSC	Long-term investments	600	6,000	3.02	6,000	Note 2
	Shinkong Financial Holding Co., Ltd.	-	Short-term investments	293	5,824	0.01	4,864	-
		<u>Equity</u>						
	Prudential Well Pool Bond Fund	-	Short-term investments	868	10,059	-	10,059	Note 1
Syntronix	<u>Stock</u>							
	Optimax Technology Corp	PSC is its director	Long-term investments	200	10,000	0.11	2,849	Note 4
	Powervision Technologies, Inc.	The Corporations is its director	Long-term investments	700	7,000	3.20	7,000	Note 2
	<u>Bonds</u>							
	UMAX Data System Inc.	Same chairman	Long-term investments	2	9,900	-	9,900	Note 2
	<u>Stock</u>							
	Shinkong Financial Holding Co., Ltd.	-	Short-term investments	1	8	-	7	-
		<u>Equity</u>						
	Capital Safe Income Bond Fund	-	Short-term investments	1,501	20,000	-	20,509	Note 1
	Prudential Well Pool Bond Fund	-	Short-term investments	380	4,340	-	4,434	Note 1
	ABN AMRO Bond Fund	-	Short-term investments	1,285	18,000	-	18,076	Note 1
Telmax	<u>Stock</u>							
	MaxEdge Electronics Corp.	The corporations is its director	Long-term investments	7,580	67,215	4.01	40,925	Note 4
	Ceon Computers Corp.	Investee	Long-term investments	2,100	20,971	7.24	19,371	Note 4
	AVAC Systems Inc.	Investee	Long-term investments	1,596	20,019	17.73	16,850	Note 4
	Syntronix Corp.	Investee	Long-term investments	300	2,808	3.00	2,740	Note 4
	Webstorage Corp.	Same chairman of PSC	Long-term investments	3,029	29,740	5.05	24,492	Note 4
	Optimax Technology Corp.	Same chairman	Long-term investments	506	16,984	0.34	8,807	Note 4
	eMemory Technology Corp.	Same chairman of PSC	Long-term investments	655	7,007	1.64	6,894	Note 4
	Powervision Technologies, Inc.	The corporations is its director	Long-term investments	450	4,500	2.05	4,500	Note 2
	Grate Taipei Broadband Co., Ltd.	PSC is its director	Long-term investments	300	3,000	0.30	4,501	Note 4
	BaseVision Technology Corp.	-	Long-term investments	150	1,500	3.00	1,500	Note 2
	Terax Communication Technologies Inc.	Same chairman of PSC	Long-term investments	100	1,000	0.40	1,011	Note 4
	Max Gate	-	Long-term investments	5,833	4,911	-	4,911	Note 2
	Billions of Operations Per Second, Inc.	-	Long-term investments	30	4,961	-	4,961	Note 2
	Eon Sillcon Devices, Inc.	-	Long-term investments	4	35	0.70	35	Note 2
	Lightsonic Optoelectronics Inc.	-	Long-term investments	2	17	-	17	Note 2

(Forward)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2002				Note
				Shares (Thousand)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Shinkong Financial Holding Co., Ltd.	-	Short-term investments	295	\$ 5,879	0.01	\$ 4,897	-
	Powerchip Semiconductor Corp.	Parent Company	Short-term investments	270	4,865	0.01	5,195	-
	NewSoft Technology Corp.	Same chairman of PSC	Short-term investments	194	4,727	0.32	2,848	-
	<u>Equity</u>							
	UBS Taiwan Bond Fund	-	Short-term investments	724	10,008	-	10,061	Note 1
	Barits Bond Fund	-	Short-term investments	1,774	20,000	-	20,114	Note 1

Note 1: The market value is based on net asset value of the fund as of June 30, 2002.

Note 2: The market values are based on stated carrying value.

Note 3: The market value is based on contracted resell price.

Note 4: The net asset value is based on unaudited financial data.

Note 5: The prepayments of long-term investments of the Corporation, Quantum Vision, Telexmax and Paramax are excluded.

Note 6: Marketable securities disclosed above are not pledged nor mortgaged as of June 30, 2002.

Note 7: The bonds investment above is acquired through private market with certain restrictions on its transferable right under the Law of Security Exchange of the Republic of China.

POWERCHIP SEMICONDUCTOR CORPORATION AND INVESTEEES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

For the Six Months Ended June 30, 2002

(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-Party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares (Thousand)	Amount	Shares (Thousand)	Amount	Shares (Thousand)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousand)	Amount
PSC	<u>Equity</u> NAM Short-Term Fixed Income Fund	Short-term investments	-	-	-	\$ -	403	\$ 172,650	-	\$ -	\$ -	\$ -	403	\$ 172,650
Quantum Vision Corp.	<u>Equity</u> Sheng Hua 1699 Bond Fund	Short-term investments	-	-	9,016	100,551	-	-	9,016	102,336	100,551	1,785	-	-
	UBS Taiwan Bond Fund	Short-term investments	-	-	4,201	50,000	4,993	60,000	9,194	110,443	110,000	443	-	-

POWERCHIP SEMICONDUCTOR CORPORATION

ACQUISITION OF INDIVIDUAL REAL ESTATES AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

For the Six Months Ended June 30, 2002

(Amounts in Thousand New Taiwan Dollars)

Company Name	Property	Transaction Date	Transaction Amount	Payment Status	Counter-Party	Nature of Relationship	Prior Transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationship	Transfer Date	Amount			
PSC	Buildings	Jan. 8, 2002-Jun. 13, 2002	\$530,741	\$238,399 paid	Fu Tsu Construction Co., Ltd., etc.	-	-	-	-	\$ -	-	Fab. II and office manufacturing	None

POWERCHIP SEMICONDUCTOR CORPORATION

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

For the Six Months Ended June 30, 2002

(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
PSC	Mitsubishi - Taiwan Power Ceon Powertech	Subsidiary of Mitsubishi - Japan The Corporation is its director	Sales	\$ 983,704	14	Note 2	Note 6	Note 6	\$ 177,293	13	-
			Sales	906,993	13	Note 3	-	-	36,552	3	-
		Investee Quantum Vision is its director	Sales	121,592	2	Note 4	-	-	5,378	-	-
			Note 1	1,018,185	19	Note 5	Note 7	Note 7	(404,743)	(32)	-

Note 1: Subcontract fees.

Note 2: Mainly paid on the 20th and the last day of the month following the month the shipment is made before and after the 15th respectively.

Note 3: Mainly paid on the 14th day after shipment is made.

Note 4: Mainly paid on the 30th day following the month the shipment is made and accepted before the 25th.

Note 5: Mainly paid on the 60th day.

Note 6: Contract terms with no comparable counterparties.

Note 7: Agreement terms with no comparable counterparties.

POWERCHIP SEMICONDUCTOR CORPORATION

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

June 30, 2002

(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
PSC	Mitsubishi - Taiwan Powertech	Subsidiary of Mitsubishi - Japan Quantum Vision is its director	\$ 177,293	17.57	\$ -	-	\$ 52,171	\$ -
			353,639	Note	-	-	-	-

Note: Mainly for installment equipment receivable over 24 months starting from December 25, 2000.

POWERCHIP SEMICONDUCTOR CORPORATION AND INVESTEEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE

For the Six Months Ended June 30, 2002

(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of June 30, 2002			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				Dec. 31, 2001	Dec. 31, 2000	Shares (Thousand)	Percentage of Ownership	Carrying Value			
PSC	Quantum Vision Corp.	Taipei, Taiwan	Investment	\$ 799,900	\$ 799,900	79,990	99.99%	\$ 781,873	(\$ 32,385)	(\$ 30,142)	-
	Li-Hsin Investment Corp.	Taipei, Taiwan	Investment	688,500	598,500	68,850	99.78%	433,565	(10,383)	(20,376)	-
	Paramax Corp.	Taipei, Taiwan	Retail of electronic components	149,940	149,940	14,994	99.96%	145,495	(3,201)	(3,200)	-
	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	260,232	260,232	23,648	12.50%	127,572	(141,232)	(17,654)	-
	Telmax Technologies Corp.	Taipei, Taiwan	Electronic components manufacturing	90,000	90,000	9,000	21.43%	84,037	(9,701)	(2,736)	-
	Maxium Technologies, Inc.	Taipei, Taiwan	Electronic components manufacturing	71,000	71,000	7,100	32.27%	77,099	26,141	6,709	-
	Syntronix Corp.	Taipei, Taiwan	Design of electronic related products	65,000	65,000	6,500	65.00%	59,375	(6,415)	(4,170)	-
	Ceon Computers Corp.	Taipei, Taiwan	Electronic components manufacturing	57,000	57,000	5,700	19.66%	54,310	1,221	17	-